

## Message Text

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PAGE 01 SANTO 04275 021410Z

62

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FM AMEMBASSY SANTO DOMINGO

TO SECSTATE WASHDC 8135

C O N F I D E N T I A L SANTO DOMINGO 4275

E.O. 11652: GDS

TAGS: EFIN, DR

SUBJECT: PERICHE WINNING STRUGGLE TO CONTROL MONETARY POLICY

1. FROM THE TIME FERNANDO PERICHE VIDAL ENTERED ON DUTY AS GOVERNOR OF THE CENTRAL BANK JUNE 1 AND HIS PREDECESSOR, DIOGENES FERNANDEZ, BECAME SECRETARY OF FINANCE, THE TRADITIONAL RIVALRY BETWEEN THE CENTRAL BANK GOVERNOR AND THE SECRETARY OF FINANCE IN THE GODR HAS SIGNIFICANTLY INTENSIFIED. IN THE WEEKLY MEETINGS OF THE MONETARY BOARD PRESIDED OVER BY THE SECRETARY OF FINANCE, PERICHE AND FERNANDEZ HAVE HAD TO BE PHYSICALLY RESTRAINED FROM FISTICUFFS BY OTHER BOARD MEMBERS. NAME-CALLING HAS INCLUDED QUOTE THIEF UNQUOTE AND QUOTE TRAITOR UNQUOTE.

2. IN WRITTEN COMMUNICATIONS TO PRESIDENT BALAGUER, PERICHE HAS COMPLAINED THAT THE CENTRAL BANK STAFF HAS BEEN BOYCOTTING HIM AND IS STILL BASICALLY LOYAL TO FERNANDEZ. THE LATTER IN TURN HAS COMPLAINED THAT TOURISM CONTRACTS WHICH HE SIGNED WITH FOREIGN FIRMS HAVE NOT BEEN HONORED BY PERICHE.

3. PERICHE APPEARS GRADUALLY TO BE WINNING THE STRUGGLE. HE HAS BEEN SUCCESSFUL IN GETTING FERNANDEZ REMOVED FROM THE COMMISSIONS SUPERVISING THREE CENTRAL BANK ENTITIES: INFRATUR (FOR THE DEVELOPMENT OF TOURISM), FIDE (FOR AGRO-INDUSTRIAL LOANS), AND INDOTEC (CENTER FOR TECHNOLOGY). THIS WEEK THE HOUSE FOLLOWED THE SENATE IN PASSING A GOVERNMENT-SPONSORED  
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PAGE 02 SANTO 04275 021410Z

BILL WHICH WOULD THE CENTRAL BANK GOVERNOR RATHER THAN

THE FINANCE SECRETARY THE EX OFFICIO CHAIRMAN OF THE MONETARY BOARD. THIS IS THE ARRANGEMENT THAT OBTAINED BEFORE FERNANDEZ AS CENTRAL BANK GOVERNOR BEGAN RUNNING INTO STORMY WEATHER IN THE SPRING OF 1975.

4. ANOTHER FEATURE OF THE BILL, HOWEVER, RESTRICTS THE POWER OF THE CENTRAL BANK GOVERNOR TO DISCHARGE STAFF EMPLOYEES. UNCERTAIN AT THIS POINT IS THE FATE OF ANOTHER PROPOSAL PRESUMABLY DESIGNED TO ALLOW PERICHE TO STACK THE MONETARY BOARD BY HAVING ITS MEMBERSHIP ENLARGED FROM SEVEN TO TEN.

5. COMMENT: DIOGENES FERNANDEZ' STAR SEEMS TO BE SO WANING THAT IT IS QUITE POSSIBLE HE WILL BE SOON GOING ABROAD AS AN OFFICIAL OF SOME IFI OR AS AN AMBASSADOR. ASSUMING PERICHE GETS FIRM CONTROL OF MONETARY POLICY, AS NOW APPEARS LIKELY, THE BIG QUESTION IS THEN WHAT HE WILL DO WITH IT. SOME OF THE NEW TEAM HAVE BEEN TALKING FROM THE BEGINNING OF COMBATING INFLATION AND IMPROVING THE BALANCE OF PAYMENTS BY MORE RESTRICTIVE MONETARY POLICY. ALEX KAFDA, BRAZILIAN EXECUTIVE DIRECTOR TO THE IMF WHO ALSO REPRESENTS THE DR, WAS SUGGESTING THE SAME THING DURING HIS VISIT HERE TWO WEEKS AGO. ON THE OTHER HAND, SOME OF THE BUSINESS MEMBERS OF THE MONETARY BOARD ARE SAYING THAT THE ECONOMY HAS ALREADY BEEN DANGEROUSLY SLOWED DOWN BY THE DROUTH LAST YEAR AND IN CERTAIN AREAS OF THE COUNTRY THIS YEAR, BY THE NON-SALE OF SUGAR FOR FIVE MONTHS AT THE BEGINNING OF THE YEAR, AND BY THE ELECTRIC POWER CRISIS.

6. OLIGARCHS AND TOP BUSINESS CIRCLES ARE EXPRESSING CONCERN ABOUT SMALL SIGNS OF INCREASING RESTLESSNESS ON THE PART OF THE POPULACE, SUCH AS LAND INVASIONS, UNIVERSITY-STUDENT OCCUPATION OF THE SANTO DOMINGO CATHEDRAL, AND THE HUNGER STRIKE STAGED BY MOTHERS OF IMPRISONED TERRORISTS. THE ADDED NERVOUSNESS ABOUT THE ECONOMIC AND POLITICAL SITUATION, INCLUDING THE PRECIPITATE FALL IN WORLD SUGAR PRICES AND THE GROWING BALANCE-OF-PAYMENTS DEFICITS, WILL ALL BE FACTORS ENTERING INTO A CONSIDERATION OF WHETHER PERICHE WILL TRY (OR BE SUCCESSFUL IF HE DOES) TO IMPOSE A MORE RESTRICTIVE MONETARY POLICY AS KAFKA SUGGESTED.

HURWITCH

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